

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Alanson	County Emmet
Audit Date 2/28/06	Opinion Date 7/21/06	Date Accountant Report Submitted to State 10/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

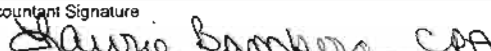
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

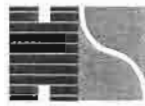
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street	City Petoskey	State MI	ZIP 49770
Accountant Signature 		Date 10/27/06	

FINANCIAL REPORT
VILLAGE OF ALANSON
February 28, 2006

VILLAGE OF ALANSON
FINANCIAL REPORT
February 28, 2006

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

July 21, 2006

Independent Auditors' Report

Village President and Council
Village of Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity and each major fund of the Village of Alanson, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged as auditors of the Village until the end of the fiscal year, and our engagement did not include the performance of procedures necessary to enable us to satisfy ourselves as to the account balances as of March 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we performed procedures on the March 1, 2005 account balances as explained above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, and each major fund of the Village of Alanson, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 1, 2005.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Village of Alanson
P. O. Box 425
Alanson, MI 49706
Phone/Fax 231-548-5431

Management's Discussion and Analysis

Overview of the Basic Financial Statements

The Village of Alanson's basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. The financial report also contains required supplemental information in addition to the basic financial statements. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

Government-wide Financial Statements

The government-wide financial statements report information on all of the Village's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Village's assets and liabilities, with the difference reported as *net assets*. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Village (general government, public safety, public works, etc.), which are supported by the Village's general revenues (property taxes, state shared revenues, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds and proprietary fund, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds.

The focus of the governmental fund financial statements is on the sources and uses of funds during the current year.

The proprietary fund financial statements present information as it would appear for a private-sector business.

The Village of Alanson maintains 3 individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for these funds, which are all considered major funds.

The Village maintains one proprietary fund, the Sewer Fund. This fund is similar to a for-profit business, as it charges a fee for its service. Its information is presented in the proprietary fund statement of net assets, the statement of revenues, expenses and changes in fund net assets, and the statement of cash flows.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the Village's net assets as of February 28 2006:

Village of Alanson Statement of Net Assets February 28, 2006

	Governmental Activities	Business-Type Activity	Total
Assets			
Current and other assets	\$ 191,000	\$ 190,822	\$ 381,822
Non-current assets	-	4,403	4,403
Capital assets - net of accum. dep.	269,567	-	269,567
Total assets	<u>\$ 460,567</u>	<u>\$ 195,225</u>	<u>\$ 655,792</u>
Liabilities			
Current liabilities	\$ 4,701	\$ 9,453	\$ 14,154
Deferred revenue	7,581	-	7,581
Total liabilities	<u>12,282</u>	<u>9,453</u>	<u>21,735</u>
Net Assets			
Investment in capital assets net of related debt	269,567	-	269,567
Restricted	-	185,772	185,772
Unrestricted	178,718	-	178,718
Total net assets	<u>448,285</u>	<u>185,772</u>	<u>634,057</u>
Total liabilities and net assets	<u>\$ 460,567</u>	<u>\$ 195,225</u>	<u>\$ 655,792</u>

At the end of the fiscal year, Village of Alanson is able to report positive balances in all categories of net assets. The first portion of the Village's net assets is its investment in capital assets (land, buildings/building improvements, and equipment); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets in providing services; consequently, these assets are not available for future spending.

The restricted net assets represent amounts limited for spending on maintenance and debt service of the sewer system.

The remaining portion of net assets – unrestricted net assets – may be used at the Village's discretion to meet ongoing obligations.

The results for the Village as a whole are reported in the Statement of Activities, which is summarized below:

**Village of Alanson
Statement of Activities
Year Ended February 28, 2006**

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Revenue			
Program revenue:			
Charges for services	\$ 455	\$ 160,262	\$ 160,717
Operating grants and contributions	65,253	-	65,253
General revenue:			
Property taxes	139,655	-	139,655
State shared revenues	69,388	-	69,388
Interest and rentals	24,071	6,746	30,817
Miscellaneous	4,860	-	4,860
	<u>303,682</u>	<u>167,008</u>	<u>470,690</u>
Function/Program Expenses			
General government	101,262	-	101,262
Public safety	10,021	-	10,021
Public works	181,481	178,654	360,135
Recreation and cultural	4,024	-	4,024
Depreciation (unallocated)	41,092	-	41,092
	<u>337,880</u>	<u>178,654</u>	<u>516,534</u>
Change in net assets	(34,198)	(11,646)	(45,844)
Net assets - beginning of year	<u>482,483</u>	<u>197,418</u>	<u>679,901</u>
Net assets - end of year	<u>\$ 448,285</u>	<u>\$ 185,772</u>	<u>\$ 634,057</u>

As reported above, the Village recorded \$516,534 of expenses. The Village's governmental activities were funded primarily with property tax revenues, state shared revenues and state grants.

The Village experienced an overall decrease in net assets of \$45,844.

The Village's Funds

The analysis of the Village's major governmental funds begins on page 5. As of year end, the Village governmental funds reported a combined fund balance of approximately \$142,806 which is \$2,718 less than the beginning of the year.

The analysis of the Village's major business-type activity fund begins on page 9. As of year end, the Village's enterprise fund reported a net asset balance of \$195,225 which is \$11,646 less than the beginning of the year.

General Fund Budgetary Highlights

The increase from the original budgeted revenues and expenditures to the final budgeted revenues and expenditures was due to a misclassification, which had no significant effect on the anticipated change in fund balance.

Final actual revenues and expenditures were less than final budgeted amounts for the same reason as stated above, with no significant variance in the anticipated change in fund balance.

Major and Local Street Fund Budgetary Highlights

Final budgeted revenues and expenditures were slightly changed from original budgeted amounts. Final actual revenues and expenditures were consistent with budgeted amounts.

Capital Assets and Debt Administration

At February 28, 2006 the Village had \$269,567 invested in capital assets. The following table summarizes the capital asset activity for the year:

Village of Alanson Year Ended February 28, 2006				
	March 1, 2005	Additions	Disposals	February 28, 2006
Land	\$ 11,873	\$ 1	\$ -	\$ 11,874
Buildings and improvements	60,000	-	-	60,000
Equipment	209,271	-	-	209,271
Infrastructure	627,540	-	-	627,540
Total capital assets	908,684	1	-	908,685
Less accum. depreciation	(598,026)	(41,092)	-	(639,118)
Net capital assets	<u>\$ 310,658</u>	<u>\$ (41,091)</u>	<u>\$ -</u>	<u>\$ 269,567</u>

Financial Contact

The Village's financial statements are designed to present users with a general overview of the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Village Treasurer, Village of Alanson.

VILLAGE OF ALANSON
Statement of Net Assets
February 28, 2006

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
Current Assets			
Cash	\$ 73,475	\$ 30,502	\$ 103,977
Investments	58,934	116,858	175,792
Due from other governmental units	58,591	-	58,591
Receivables, net	-	43,462	43,462
	<u>191,000</u>	<u>190,822</u>	<u>381,822</u>
Noncurrent Assets			
HSASDA working capital advance	-	4,403	4,403
Land	11,874	-	11,874
Depreciable assets	896,811	-	896,811
Less: accumulated depreciation	(639,118)	-	(639,118)
	<u>269,567</u>	<u>4,403</u>	<u>273,970</u>
Total noncurrent assets	<u>269,567</u>	<u>4,403</u>	<u>273,970</u>
Total assets	<u><u>\$ 460,567</u></u>	<u><u>\$ 195,225</u></u>	<u><u>\$ 655,792</u></u>
<u>Liabilities and Net Assets</u>			
Current Liabilities			
Accounts payable	\$ 3,919	\$ -	\$ 3,919
Due to other governmental units	-	9,453	9,453
Accrued expenditures	782	-	782
Deferred revenue	7,581	-	7,581
	<u>12,282</u>	<u>9,453</u>	<u>21,735</u>
Total current liabilities	<u>12,282</u>	<u>9,453</u>	<u>21,735</u>
Net Assets			
Invested in capital assets, net of related debt	269,567	-	269,567
Restricted	-	185,772	185,772
Unrestricted	178,718	-	178,718
	<u>448,285</u>	<u>185,772</u>	<u>634,057</u>
Total net assets	<u>448,285</u>	<u>185,772</u>	<u>634,057</u>
Total liabilities and net assets	<u><u>\$ 460,567</u></u>	<u><u>\$ 195,225</u></u>	<u><u>\$ 655,792</u></u>

VILLAGE OF ALANSON
Statement of Activities
For the Year Ended February 28, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>							
Governmental activities:							
General government	\$ 101,262	\$ 455	\$ -	\$ -	\$ (100,807)	\$ -	\$ (100,807)
Public safety	10,021	-	-	-	(10,021)	-	(10,021)
Public works	181,481	-	62,661	-	(118,820)	-	(118,820)
Recreation and cultural	4,024	-	2,592	-	(1,432)	-	(1,432)
Unallocated depreciation	41,092	-	-	-	(41,092)	-	(41,092)
Total governmental activities	337,880	455	65,253	-	(272,172)	-	(272,172)
Business-type activities:							
Sewer	178,654	160,262	-	-	-	(18,392)	(18,392)
Total business-type activities	178,654	160,262	-	-	-	(18,392)	(18,392)
Total primary government	\$ 516,534	\$ 160,717	\$ 65,253	\$ -	(272,172)	(18,392)	(290,564)
General revenues:							
Property taxes					139,655	-	139,655
State-shared revenues					69,388	-	69,388
Interest and rentals					24,071	6,746	30,817
Miscellaneous					4,860	-	4,860
Total general revenues and transfers					237,974	6,746	244,720
Change in net assets					(34,198)	(11,646)	(45,844)
Net assets - beginning of year					482,483	197,418	679,901
Net assets - end of year					\$ 448,285	\$ 185,772	\$ 634,057

See accompanying notes to the basic financial statements.

VILLAGE OF ALANSON
Balance Sheet
Governmental Funds
February 28, 2006

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Governmental Funds</u>
Cash	\$ 60,497	\$ 1,554	\$ 11,424	\$ 73,475
Investments	58,934	-	-	58,934
Due from other governmental units	11,683	7,261	3,735	22,679
Total assets	<u>\$ 131,114</u>	<u>\$ 8,815</u>	<u>\$ 15,159</u>	<u>\$ 155,088</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 2,671	\$ 1,248	\$ -	\$ 3,919
Accrued expenditures	782	-	-	782
Deferred revenue	7,581	-	-	7,581
Total liabilities	<u>11,034</u>	<u>1,248</u>	<u>-</u>	<u>12,282</u>
Fund balances				
Unreserved	<u>120,080</u>	<u>7,567</u>	<u>15,159</u>	<u>142,806</u>
Total fund balances	<u>120,080</u>	<u>7,567</u>	<u>15,159</u>	<u>142,806</u>
Total liabilities and fund balances	<u>\$ 131,114</u>	<u>\$ 8,815</u>	<u>\$ 15,159</u>	<u>\$ 155,088</u>

VILLAGE OF ALANSON
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
February 28, 2006

Total Fund Balance - Governmental Funds	\$ 142,806
Amounts reported for governmental activities in the statement of net assets are different because:	
Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.	35,912
Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.	
Governmental capital assets	908,685
Accumulated depreciation	<u>(639,118)</u>
Net Assets of Governmental Activities	<u>\$ 448,285</u>

VILLAGE OF ALANSON
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2006

	General	Major Street	Local Street	Total Governmental Funds
Revenues				
Taxes	\$ 130,044	\$ -	\$ -	\$ 130,044
State revenues	69,388	41,963	20,698	132,049
Charges for services	455	-	-	455
Interest and rentals	23,999	27	45	24,071
Other	7,452	-	-	7,452
Total revenues	<u>231,338</u>	<u>41,990</u>	<u>20,743</u>	<u>294,071</u>
Expenditures				
Current:				
General government	101,262	-	-	101,262
Public safety	10,021	-	-	10,021
Public works	122,095	41,812	17,574	181,481
Recreation and cultural	4,025	-	-	4,025
Total expenditures	<u>237,403</u>	<u>41,812</u>	<u>17,574</u>	<u>296,789</u>
Net change in fund balances	(6,065)	178	3,169	(2,718)
Fund balances - beginning of year	<u>126,145</u>	<u>7,389</u>	<u>11,990</u>	<u>145,524</u>
Fund balances - end of year	<u>\$ 120,080</u>	<u>\$ 7,567</u>	<u>\$ 15,159</u>	<u>\$ 142,806</u>

VILLAGE OF ALANSON
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended February 28, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (2,718)
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Amounts reported for governmental activities in the statement of activities
are different because:

Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.	9,611
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Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of these assets is allocated over
their estimated useful lives as depreciation.

Capital outlay - land	1
Current year depreciation	(41,092)
	(41,091)

Change in Net Assets of Governmental Activities	\$ (34,198)
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VILLAGE OF ALANSON
Statement of Net Assets
Proprietary Fund
February 28, 2006

	Business-Type Activity Enterprise Fund Sewer System
<u>Assets</u>	
Current Assets	
Cash	\$ 30,502
Investments	116,858
Receivables, net	43,462
	<hr/>
Total current assets	190,822
Noncurrent Assets	
HSASDA working capital advance	4,403
	<hr/>
Total assets	<u>\$ 195,225</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Due to other gov't units	\$ 9,453
Net Assets	
Restricted	185,772
	<hr/>
Total liabilities and net assets	<u>\$ 195,225</u>

VILLAGE OF ALANSON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended February 28, 2006

	Business-Type Activity Enterprise Fund Sewer System
Operating revenues	
Charges for services	\$ 160,262
Operating expenses	
Personal services	5,090
Contractual services	172,735
Other supplies and expenses	829
Total operating expenses	178,654
Operating income (loss)	(18,392)
Nonoperating revenues	
Interest	6,746
Change in net assets	(11,646)
Total net assets - beginning	197,418
Total net assets - ending	\$ 185,772

VILLAGE OF ALANSON
Statement of Cash Flows
Proprietary Fund
For the Year Ended February 28, 2006

	Business-Type Activity Enterprise Fund Sewer System
Cash flows from operating activities	
Receipts from customers	\$ 157,402
Payments to suppliers	(172,841)
Cash payments to employees for services	(5,090)
	<u>(20,529)</u>
Net cash provided (used) by operating activities	<u>(20,529)</u>
Cash flows from non-capital financing activities	
Cash received from long-term advance	<u>5,598</u>
Cash flows from investing activities	
Interest received	<u>749</u>
Net increase (decrease) in cash	(14,182)
Cash, beginning	<u>44,684</u>
Cash, ending	<u><u>\$ 30,502</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (18,392)
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(2,860)
Increase (decrease) in accounts payable	<u>723</u>
Net cash provided (used) by operating activities	<u><u>\$ (20,529)</u></u>

VILLAGE OF ALANSON
NOTES TO FINANCIAL STATEMENTS
February 28, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village operates under a Council-President form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, sanitation, public improvements, planning and zoning, culture – recreation, and general administrative services.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Village of Alanson.

REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the Village and included in the Village's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Village has no component units.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

In the government-wide Statement of Net Assets, both the governmental and business-type activity are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the Village:

General Fund – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary fund of the Village:

Sewer Fund – The Sewer Fund is an Enterprise Fund. This fund is financed and operated in a manner similar to private enterprise. The intent is that costs (expenses) of providing sewer service to the general public are recovered through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Village's proprietary fund are charges to customers for sales and services. Operating expenses for this fund include the cost of sales and services, and also administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, leasehold improvements, infrastructure assets (e.g., roads, bridges and similar items) and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Village when they have an estimated useful life in excess of 2 years, and individual costs are equal to or greater than:

Land	\$ 1
Buildings	25,000
Infrastructure	50,000
All other asset types	3,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Streets, Curbs and Gutters	10 to 30 years
Equipment	3 to 7 years
Office Equipment	5 to 7 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

COMPARATIVE DATA

Comparative data for the prior year is not included in the Village's financial statements.

ACCOUNTING CHANGE

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective March 1, 2005, the Village implemented the provisions of GASB No. 34. Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets which were previously reported in the General Fixed Asset Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental funds of the Village. Budgetary control is legally maintained at the fund level.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the President submits to the Village Council a proposed operating budget for the fiscal year commencing March 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at Village Hall to obtain taxpayer comments.
3. Prior to March 1, the fund budgets are legally enacted through passage of an appropriation act.
4. The budget is adopted at the fund level consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Village Council during the year, and lapse at year-end.

The Village did not have an excess of expenditures over appropriations for any of its Governmental Funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village's deposits and investment policy are in accordance with statutory authority.

CASH DEPOSITS

At February 28, 2006, the carrying amount of the Village's deposits was \$103,977 and the bank balance was \$108,888.

Investments consist of Certificates of Deposit with a carrying amount of \$175,792 at February 28, 2006. These are considered deposits for custodial credit risk.

Federal Depository Insurance – Of the above balance in cash and investments, \$267,164 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. The Village may experience significant fluctuations in deposit balances throughout the year due to varying property tax collections and other activity.

NOTE 4: PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. The Village bills and collects its own property taxes from July through September. Property tax revenues are recognized when collected.

The Village is permitted by statute to levy taxes subject to State Headlee and Truth-in-Taxation Provisions up to \$12.50 per \$1,000 of taxable valuation for general governmental services other than payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The Village is also permitted by statute to levy taxes up to \$5 per \$1,000 of taxable valuation for street improvements. The 2005 taxable valuation of the Village of Alanson totaled \$16,543,106.

The tax rate for the year ended February 28, 2006, is as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General government	4.9199 per \$1,000
Street improvements	3.3497 per \$1,000

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity of the Village's primary government for the current year was as follows:

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 28, 2006</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 11,873	\$ 1	\$ -	\$ 11,874
Subtotal	<u>11,873</u>	<u>1</u>	<u>-</u>	<u>11,874</u>
Capital assets being depreciated:				
Buildings	60,000	-	-	60,000
Equipment	209,271	-	-	209,271
Infrastructure	<u>627,540</u>	<u>-</u>	<u>-</u>	<u>627,540</u>
Subtotal	<u>896,811</u>	<u>-</u>	<u>-</u>	<u>896,811</u>
Less accumulated depreciation:				
Buildings	(24,000)	(1,200)	-	(25,200)
Equipment	(100,871)	(9,015)	-	(109,886)
Infrastructure	<u>(473,155)</u>	<u>(30,877)</u>	<u>-</u>	<u>(504,032)</u>
Subtotal	<u>(598,026)</u>	<u>(41,092)</u>	<u>-</u>	<u>(639,118)</u>
Net capital assets being depreciated	<u>298,785</u>	<u>(41,092)</u>	<u>-</u>	<u>257,693</u>
Governmental activities net capital assets	<u>\$ 310,658</u>	<u>\$ (41,091)</u>	<u>\$ -</u>	<u>\$ 269,567</u>

Depreciation expense was charged to the primary government as follows:

Governmental Activities

Unallocated	<u>\$ 41,092</u>
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: LONG-TERM ADVANCE

In 1996, the Village of Alanson, along with Little Traverse Township and Littlefield Township, advanced moneys to the Harbor Springs Area Sewage Disposal Authority for capital improvements. The advance is to be paid back to the participating governmental units over a period of 10 years. The balance of the receivable for the Village of Alanson at February 28, 2006 is \$4,403.

NOTE 7: DEFERRED REVENUE

Deferred revenue in the government-wide and the fund financial statements consists of categorical and grant monies received but not yet earned at year-end. Deferred revenues for the year ended February 28, 2006 are comprised of the following:

<u>Grant</u>	<u>Unearned</u>	<u>Unavailable</u>
Metro Act	\$ 3,005	-
Casino Grant	3,500	-
Playground Grant	<u>1,076</u>	<u>-</u>
	<u>\$ 7,581</u>	<u>\$ -</u>

NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Village belongs to the Michigan Township Participating Plan, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100% of its claims.

The Village continues to carry commercial insurance for all other risks of loss, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9: COMMITMENTS

Sewer Fund - The Village is a participant in a joint sewage disposal system administered by the Harbor Springs Area Sewage Disposal Authority and is committed to share in a portion of all costs, including principal and interest on long-term debt. The Village's portion of long-term debt consists of the following bond issue:

1988 refunding bonds were refinanced in 2004 with
the amount due in annual installments of \$22,601
through January 1, 2009 plus interest at 3.125% to 3.75%. \$ 67,805

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: COMMITMENTS – CONTINUED

Sewer Fund – Continued

The annual requirements to amortize the balance outstanding including interest payments of \$4,831 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2007	\$ 24,946
2008	24,240
2009	23,450
	<u>\$ 72,636</u>

In January, 2002, the Village of Alanson, along with the Harbor Springs Area Sewage Disposal Authority, the City of Harbor Springs, Littlefield Township and Little Traverse Township agreed to construct a new wastewater treatment facility and close the Authority's existing system. Bonds in the amount of \$7,000,000 were issued to pay for the construction.

The annual requirements to amortize the Township's portion of these debts, including interest at 2.50%, as of February 28, 2006 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2007	\$ 37,059
2008	37,487
2009	37,377
2010	37,254
2011	37,118
2012-2016	186,534
2017-2021	186,080
Thereafter	<u>111,931</u>
	<u>\$ 670,840</u>

NOTE 10: RESTRICTED NET ASSETS

The Sewer Fund's net assets are restricted for maintenance and debt service of the Village's sewer operation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 11: ADDITIONAL INFORMATION

The Village has established a Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a nine person board. The purpose of the Authority is to prevent the deterioration and promote economic growth within a specified business district. The Authority will be funded by a specified annual property tax capture of a portion of all units' levies, which may only be used for activities within the tax increment finance district. The Downtown Development Authority will be presented in future years as a discretely presented component unit.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF ALANSON
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2006

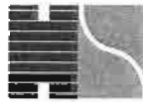
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ 113,534	\$ 113,534	\$ 126,145	\$ 12,611
Resources (inflows):				
Taxes	131,300	134,885	130,044	(4,841)
State revenues	70,010	73,321	69,388	(3,933)
Charges for services	1,250	455	455	-
Interest and rentals	19,200	25,946	23,999	(1,947)
Other	2,875	35,176	7,452	(27,724)
Amounts available for appropriations	338,169	383,317	357,483	(25,834)
Charges to appropriations (outflows):				
General government:				
Council	8,780	6,652	6,652	-
Other wages	1,000	4,203	1,147	(3,056)
Equipment purchases	6,000	-	-	-
Elections	1	-	-	-
Professional services	7,250	8,599	8,599	-
Village promotion	3,000	2,890	2,890	-
Miscellaneous	3,480	2,189	2,189	-
Clerk	11,500	11,500	11,500	-
Rent, utilities and maintenance	36,300	36,985	38,050	1,065
Treasurer	7,590	7,920	7,920	-
Sewer Billing	1,900	(167)	(167)	-
Office supplies	2,200	2,085	2,085	-
Payroll taxes	5,000	5,148	5,148	-
Insurance	16,000	15,249	15,249	-
Total general government	110,001	103,253	101,262	(1,991)
Public safety:				
Planning	2,500	2,515	2,515	-
Zoning	4,500	7,506	7,506	-
Total public safety	7,000	10,021	10,021	-
Public works:				
Roads	102,624	120,487	122,095	1,608
Sewer	10	27,550	-	(27,550)
Total public works	102,634	148,037	122,095	(25,942)
Recreation and cultural:				
Parks and recreation	5,000	4,024	4,025	1
Total charges to appropriations	224,635	265,335	237,403	(27,932)
Ending budgetary fund balance	\$ 113,534	\$ 117,982	\$ 120,080	\$ 2,098

VILLAGE OF ALANSON
 Budgetary Comparison Schedule
 Major Street Fund
 For the Year Ended February 28, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ 217	\$ 217	\$ 7,389	\$ 7,172
Resources (inflows):				
State revenues	38,310	39,343	41,963	2,620
Interest	25	27	27	-
Other	-	2,531	-	(2,531)
	<u>38,552</u>	<u>42,118</u>	<u>49,379</u>	<u>7,261</u>
Amounts available for appropriations	38,552	42,118	49,379	7,261
Charges to appropriations (outflows):				
Public works:				
Construction	14,500	11,167	11,167	-
Routine maintenance	3,500	1,404	2,652	1,248
Winter maintenance	-	-	-	-
Administration	16,800	18,336	16,808	(1,528)
Other	3,535	11,185	11,185	-
	<u>38,335</u>	<u>42,092</u>	<u>41,812</u>	<u>(280)</u>
Total charges to appropriations	38,335	42,092	41,812	(280)
Ending budgetary fund balance	<u>\$ 217</u>	<u>\$ 26</u>	<u>\$ 7,567</u>	<u>\$ 7,541</u>

VILLAGE OF ALANSON
 Budgetary Comparison Schedule
 Local Street Fund
 For the Year Ended February 28, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ 8,300	\$ 8,300	\$ 11,990	\$ 3,690
Resources (inflows):				
State revenues	19,675	20,655	20,698	43
Interest	30	45	45	-
Other	-	-	-	-
Amounts available for appropriations	<u>28,005</u>	<u>29,000</u>	<u>32,733</u>	<u>3,733</u>
Charges to appropriations (outflows):				
Public works:				
Routine maintenance	9,000	4,667	7,631	2,964
Winter maintenance	-	-	-	-
Administration	-	-	-	-
Other	<u>10,705</u>	<u>12,907</u>	<u>9,943</u>	<u>(2,964)</u>
Total charges to appropriations	<u>19,705</u>	<u>17,574</u>	<u>17,574</u>	<u>-</u>
Ending budgetary fund balance	<u>\$ 8,300</u>	<u>\$ 11,426</u>	<u>\$ 15,159</u>	<u>\$ 3,733</u>



Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

July 21, 2006

Village President and Council
Village of Alanson
Alanson, Michigan

In planning and performing our audit of the financial statements of the Village of Alanson for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village of Alanson's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Property Taxes – A need for improvement in the operation of internal controls for the collection of property taxes was identified. During the current fiscal year, some taxpayers were identified as being delinquent in the payment of their property taxes and were therefore submitted to Emmet County for collection. It was determined that not all of the taxpayers were actually delinquent and therefore monies were owed back to the County and to some individual taxpayers. The Village Treasurer has worked with the County to identify the parcels affected and improved reconciliation procedures are expected to be in place for the proceeding fiscal year.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of Village President and Council and is not intended to be and should not be used by anyone other than these specified parties.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan